The Economic Review 2006

Newfoundland
Labrador

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Bowring Park

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United States and Canadian Economies

United States

Growth in the U.S. economy slowed during the second and third quarters of 2006. Faltering residential investment slowed overall growth despite continued strength in consumer spending, exports and non-residential business investment. After growing by 5.6% in the first quarter, GDP growth slowed to 2.6% at annualized rates in the second quarter and 1.6% in the third quarter.

Labour markets continued to improve, however, the rate of monthly job gains slowed, averaging 137,000 per month during the first nine months compared to 165,000 per month during 2005. With job gains exceeding labour force growth, the unemployment rate declined to 4.6% in September, down from 4.9% at the end of 2005.

The Federal Reserve Board (Fed) continually raised interest rates from June 2004 to June 2006 with 17 successive 0.25 percentage point increases as the U.S. economy expanded and labour markets improved. However, since June it has become evident that weakness in housing is slowing overall economic growth and, with inflation remaining in check, the Fed put further rate increases on hold.

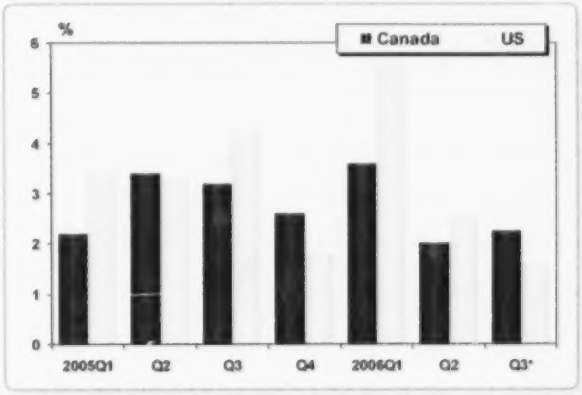
The U.S. current account deficit continued to increase during the first three quarters of this year and is expected to rise to 7% of GDP in 2006—driven by high oil prices and strong domestic demand. Despite the high deficit, the U.S. dollar managed to hold its own against major currencies during the first three quarters of 2006.

It is expected that weakness in the housing sector will keep real GDP growth near 2.0% in the final quarter of 2006 and into the first half of 2007 as the economy experiences a mid-business cycle slowdown. However, past depreciation of the U.S. dollar and strong global economic activity should help U.S. exports. Also, solid balance sheets and strong corporate profits should keep business investment strong. These positive factors should more than offset declining housing investment and possible weakness in big ticket consumer purchases. Overall, U.S. economic growth is expected to average roughly 3.0% in 2006 and 2.6% in 2007.

Canada

The Canadian economy continued to grow in the first nine months of 2006—real GDP increased by 3.6% and 2.0% in the first and second quarters respectively and is estimated to have grown by roughly 2.0 to 2.5% in the third quarter. Economic growth was led by gains in consumer spending and business investment while declines in residential investment and exports weakened growth.

Real GDP Growth
Canada and the United States



Statistics Canada; BEA
*** Canadian growth rate is estimated**

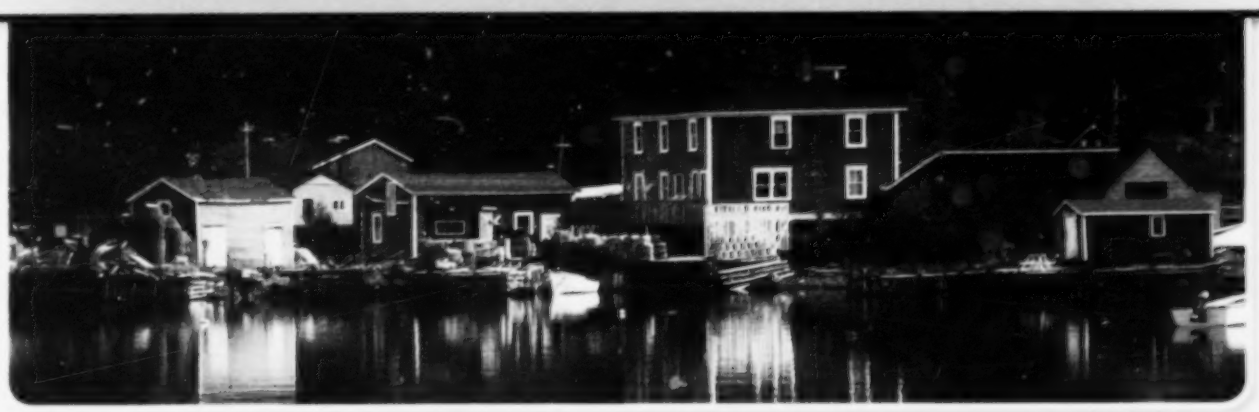
Labour markets continued to improve with employment up by 2.0% during the first nine months of this year compared to the same period in 2005. The seasonally adjusted unemployment rate was 6.4% in September down from 6.6% at the beginning of the year.

With the unemployment rate near 30 year lows and the economy operating near full capacity, the Bank of Canada steadily raised the overnight rate from 2.5% in September 2005 to 4.25% in May of this year. However, in recent months with the U.S. economy slowing, exports stalling and core inflation steady, the Bank suspended any further rate increases.

The Canadian dollar exhibited modest appreciation during the first 10 months of 2006. Interest rate increases and strong mineral and oil prices continued to support the dollar. As of the end of October, the Canadian dollar was hovering near 89 cents U.S., up from roughly 86.5 cents at the start of the year. The Canadian dollar is expected to remain in the 85 to 90 cent U.S. range in the coming quarters, supported by high commodity prices.

Most forecasters currently expect real GDP growth to average 2.8% in 2006 and 2.5% in 2007. A slowing U.S. economy and a high Canadian dollar will slow export demand and negatively impact growth in Central and Eastern Canada, particularly in Ontario and Quebec, but booming commodity markets and preparations for the 2010 Vancouver Olympics should keep growth strong in the Western provinces.

Provincial Economic Overview



Little Bay Islands

Real Gross Domestic Product (GDP) is expected to grow by 3.0% in 2006, down from the 6.2% forecast in March 2006. The downward revision is due to lower than expected oil production, in particular, lower production from the Terra Nova oil field. Economic growth this year will stem mainly from gains in mineral exports and higher consumer spending. Some stimulus is also being provided by higher provincial government spending.

Investment is forecast to decline by 6.9% in 2006 to $4.0 billion—both construction and machinery and equipment spending are expected to be lower this year. The end of the development phase of both the White Rose oil project and the Voisey's Bay mining project are largely responsible for the decline in investment. Despite the overall decline in investment, construction activity was positively impacted by a significant increase in provincial government infrastructure spending. Furthermore, the absolute level of investment in the province remains at a historically high level. In fact, capital investment in 2006 is expected to be the third highest level ever recorded.

Economic Indicators
(Annual % change unless otherwise indicated)

	2005	2006f	2007f	2008f	2009f
Gross Domestic Product					
Nominal	10.8	9.4	3.8	0.0	-1.5
Real	0.4	3.0	5.7	0.5	0.2
Personal Income					
Nominal	3.9	4.0	3.3	3.0	3.4
Real	1.2	1.8	1.5	1.1	1.4
Personal Disposable Income					
Nominal	3.1	4.0	3.3	2.8	3.2
Real	0.5	1.8	1.5	0.9	1.3
Retail Sales					
Nominal	2.2	2.1	2.3	2.3	3.3
Real	-1.1	0.1	1.4	1.3	2.2
Housing Starts	-13.0	-12.8	-9.4	-2.4	0.8
Employment	-0.1	0.4	1.1	1.5	1.4
Labour Force	-0.7	0.2	0.5	0.6	0.7
Unemployment Rate (%)	15.2	15.1	14.6	13.8	13.2
Population	-0.6	-0.8	-0.7	-0.3	-0.2

f: forecast. Department of Finance, October 2006
Department of Finance, Statistics Canada

Consumer spending growth continued in 2006. Retail sales (which account for about 55% of consumer spending) totalled $3.9 billion in the first eight months of this year, an increase of 2.1% compared to the same period in 2005. Growth stemmed mostly from an increase in sales by department and general merchandise stores. Car sales were a constraint on overall retail sales growth this year. The number of new cars sold in the province in the first eight months of 2006 was down by 5.0% in comparison to the year earlier level.

Real exports are expected to increase by 5.3% this year due mainly to higher mineral shipments. Real exports of mineral products are forecast to increase by over 45% as Voisey's Bay records almost a full year of production. (Production was shut down for two months due to a labour dispute.) A small gain in oil exports is also expected, however, the first full year of White Rose oil production was largely offset by a lengthy shutdown of the Terra Nova facility for modifications and repair (see Oil and Gas, page 6, for further details).

Labour Markets

Employment is currently forecast to increase by 0.4% in 2006 to average close to 215,000. The labour force is also expected to increase but not as much as employment, leading to a decline in the unemployment rate. The unemployment rate is expected to average

15.1% in 2006, a 0.1 percentage point drop compared to 2005.

Employment in the first nine months of the year averaged 215,400, 0.2% higher than in the same period of 2005. Employment in the first part of the year was negatively impacted by the completion of construction of the White Rose and Voisey's Bay projects which began winding down in late summer/early fall of last year; the closure of the Stephenville newsprint mill in October 2005; and weakness in the fishing industry. Employment in both August and September increased compared to the same months in 2005 and employment growth for the remaining months is expected to be positive.

The average number of persons either working or looking for work (labour force) totalled 254,200 in the first nine months of 2006, essentially unchanged from the same period of 2005. The combination of slight growth in employment and unchanged labour force resulted in a drop in the unemployment rate of 0.1 percentage points to 15.4%.

Wages continued to increase this year. Average weekly earnings (including overtime) increased by 5.1% in the first seven months of 2006. Labour income totalled just over $4 billion in the first half of the year, 4.2% higher than the same period of 2005[1]. The increase in labour income reflects the higher weekly earnings. After adjusting for inflation, labour income grew by 1.8%. Total personal income is forecast to grow by 4.0% this year (1.8% in real terms).

Prices

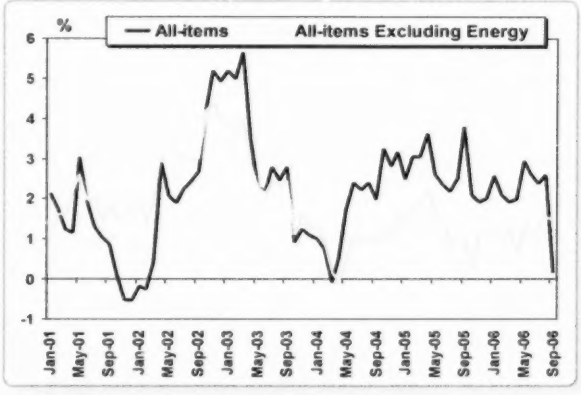
On a year-over-year basis, the CPI (Consumer Price Index) averaged 2.1% higher in the first nine months of 2006. In the first eight months of the year inflation was driven primarily by higher energy prices which increased by an average of 10.7% in the January to August period. However, in September, energy prices fell by 7.5% relative to September 2005 reflecting falling crude oil prices. The impact of declining energy prices is evident in the all-items index which increased by only 0.2% in September compared to September 2005 (see chart).

Terra Nova National Park in early fall

2007 and Beyond

Production schedules of major projects will continue to have a significant influence on economic growth over the next several years. Real GDP is expected to post strong growth in 2007 as Terra Nova oil production rebounds from an extended downtime period this year and Voisey's Bay production increases. Voisey's Bay output was negatively impacted this year by a two month labour dispute. GDP growth is expected to be weak in 2008 and 2009, premised primarily on the assumption that oil production from Terra Nova begins to decline as reserves are drawn down. This offsets gains elsewhere in the economy. The commencement of development of other major projects (such as Hebron or Lower Churchill) which are not currently included in the economic forecast could substantially improve the economic outlook.

Inflation Rate



Statistics Canada; Department of Finance
Note: Depicts percentage change from the same month of the previous year.

[1] The stated estimate of labour income removes the provincial government's special payment of $1.953 billion to the teachers' pension plan from supplementary labour income.

Fishery

Capelin processing

The fishing industry faced challenging conditions in 2006. Soft markets; the continued strength of the Canadian dollar; and higher input costs, particularly fuel, caused difficulties for all fishery sectors. Total landings are expected to fall to about 315,000 tonnes in 2006, a decline of 3.6% and the total value of landings is expected to decrease by 9.3% to $418 million.

Groundfish landings are expected to decline by almost 30% this year, primarily as a result of lower landings of yellowtail flounder and American plaice. The value of groundfish landings is also expected to fall substantially.

Pelagic landings in 2006 are expected to rise by about 3% primarily due to higher landings of capelin. An increased capelin quota resulted in a harvest of about 39,500 tonnes this year, up almost 5,000 tonnes over 2005.

Shellfish landings are expected to increase by 1.4% this year as a result of higher catches of crab, shrimp and clams. However, the value of shellfish landings is expected to fall by over 14% because of lower prices for both crab and shrimp.

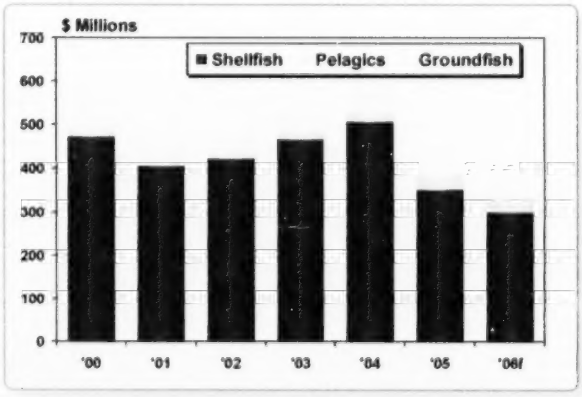
The entire crab quota was caught this year in comparison to only 90% last year. Landings were approximately 47,000 tonnes, about 7% higher than 2005 levels, however, crab prices were weak this year. The average Canadian price for five to eight ounce crab sections fell to $3.51 per pound from $4.31 in 2005 and $5.85 in 2004. As a result of lower market prices, average harvesting prices declined by almost 34% to $0.96 per pound. Consequently, the value of crab landings fell to about $100 million compared to $140 million last year.

Shrimp landings are expected to rise by almost 3% this year as the entire quota is expected to be taken. Soft markets and high input costs have been negatively affecting fleet economics, however, high catch rates and sharing arrangements between harvesters to reduce costs are allowing harvesters to remain viable. On a positive note, the Autonomous Tariff Rate Quota, which allows shrimp to be sold to the European Union under a 6% tariff instead of the usual 20%, is expected to increase by 3,000 tonnes to 10,000 tonnes for the 2006 season, which will improve returns to shrimp producers.

The seal market remained strong in 2006 with about 300,000 seals taken. Prices to harvesters rose to a record $105 per pelt this year from about $56 in 2005, resulting in a substantial increase in landed value. Landed value rose to $33 million from $15.7 million last year.

Aquaculture production is expected to increase to 9,500 tonnes from 8,100 in 2005. Higher production is due to increased salmon and mussel production. The province has experienced renewed interest in aquaculture in 2006 with the arrival of a new enterprise, Cooke Aquaculture Inc., and the expansion of existing companies.

Value of Fish Landings



Department of Fisheries and Aquaculture; f: forecast

Mining

Aur Resources Inc.

The value of mineral shipments is expected to total about $2.6 billion in 2006, almost double the value recorded in 2005, due mainly to increased shipments by Voisey's Bay Nickel Company Ltd.

Voisey's Bay

The Voisey's Bay mine began production of concentrate in September 2005 and recorded nearly a full year of production in 2006. A strike at the site shut down production for two months of this year. Despite the strike, the company expects to ship over $1 billion worth of metal concentrate in 2006—which now represents almost half the value of provincial mineral shipments. The Voisey's Bay project is forecast to generate about 850 person years of employment in 2006.

Iron Ore

Iron ore now comprises just over 50% of the total value of provincial mineral shipments. Iron ore shipments are expected to total over 21 million tonnes this year, an increase of 7.5% relative to 2005. The value of shipments is expected to increase 6.4% to almost $1.4 billion, mainly as a result of greater volume.

Major expenditures at the IOC mine in Labrador City saw upgrades in both ore transportation and production. A two-year project to upgrade the concentrator was completed in July 2006, five months ahead of schedule and substantially below budget. The project will boost overall concentrate production by 500,000 tonnes per year. In the first nine months of 2006, IOC produced 11.8 million tonnes of iron ore, up 2.3% compared to the same period of 2005.

In 2006, Wabush Mines approved expenditures of more than $18 million in capital projects. The mine is forecast to ship about 5.3 million tonnes of product in 2006, representing a 4.4% increase over 2005.

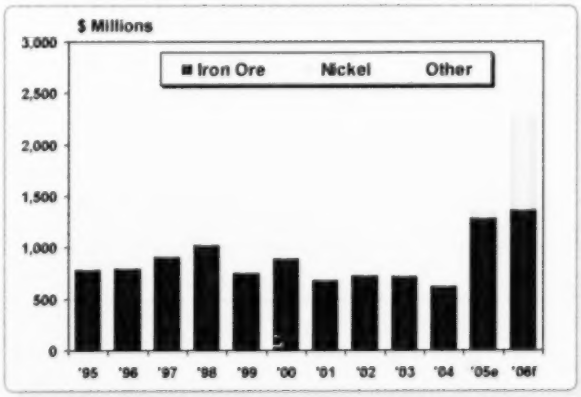
Exploration

Mining exploration expenditures are expected to total approximately $79 million in 2006, up from $49 million in 2005. This increase is attributed to a rise in exploration for uranium, nickel and iron ore. The number of claims staked in the province in 2006 is expected to be approximately 50,000, just ahead of the 42,000 staked in 2005. There are currently more than 120,000 claims in good standing.

New Developments

Aur Resources commenced development of its Duck Pond project, located in central Newfoundland, in December 2004. The company plans to mine 1,800 tonnes of ore per day and process the ore in a flotation mill, producing an average of 41 million pounds of copper, 76 million pounds of zinc, 536,000 ounces of silver and 4,100 ounces of gold annually over a seven-year mine life. The mine will begin production in the fourth quarter of 2006, and once operational, employ about 168 people annually.

Value of Mineral Shipments



Department of Natural Resources; e: estimate; f: forecast

One oil tanker (foreground) anchored in Conception Bay while another heads offshore

Offshore Production

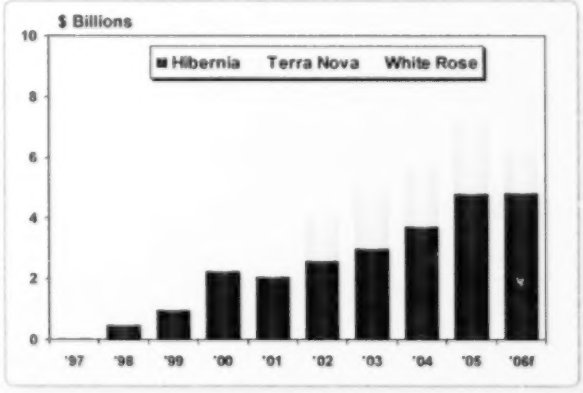
Oil production is expected to reach 112.9 million barrels in 2006[2], representing growth of 1.4% over 2005. While production growth in 2006 is positive, it is lower than the 17.5% increase which had been expected earlier in the year as a result of extended downtime at Terra Nova and lower than expected production at Hibernia.

Despite the rather marginal volume increase, the rise in production value was quite significant (see chart). The value of oil production is forecast to increase by 12.0% to $8.2 billion primarily as a result of higher crude prices. The price of Brent crude is expected to average US$64.75 in 2006 in comparison to US$54.47 in 2005.

Hibernia

In June 2006, the Canada-Newfoundland and Labrador Offshore Petroleum Board (C-NLOPB) increased its reserve estimates for the Hibernia field. Total reserves are now estimated at 1,244 million barrels, representing an increase of 379 million barrels over the previous estimate. The upward revision is the result of increased oil-in-place potential, primarily in the southern area of the Hibernia reservoir, and higher recovery efficiencies in all areas. The C-NLOPB received an application from Hibernia Management and Development Company in May (supplementary information received in July) to develop the southern area of the reservoir—a decision on the application is expected before year end.

Value of Oil Production



Department of Finance; f: forecast

The Hibernia platform has a design capacity of approximately 230,000 barrels of crude oil production per day (bpd)—the maximum annual production rate for the platform under C-NLOPB regulations is 220,000 bpd. However, 2006 production is being constrained by existing water and gas handling capacities. In the first nine months of this year, production averaged 177,041 bpd representing a 10.1% decline from 196,903 bpd for the same period in 2005. As a result, the estimated annual 2006 production from Hibernia has been revised down to 66.0 million barrels from expectations of 70.5 million barrels held earlier in the year.

Cumulative production at Hibernia, from first oil in November 1997 up to the end of September 2006, was 504 million barrels—leaving approximately 740 million barrels of reserves yet to be extracted.

Terra Nova

The Terra Nova FPSO suspended production in early May, six weeks before a scheduled 90-day retrofit, after a mechanical failure of the gearbox on its second main power generator—its other main power generator experienced similar difficulties in February. Most of the retrofit work, which is now complete, took place at the Keppel Verolme shipyard in Rotterdam.

[2] All 2006 annual oil production estimates are Department of Finance forecasts.

The $225 million FPSO retrofit included:

1. installation of a 40-bed Additional Living Quarters (ALQ) module to enable future monitoring and maintenance to be done on an on-going basis;
2. repair of the gear boxes attached to the two main power generators;
3. cleaning, inspection, and recoating of the hull with anti-fouling paint to prevent marine growth;
4. inspection of vessel thrusters;
5. improvement of gas compression system;
6. modification of ship side valves; and
7. regulatory inspections.

Work completed locally included construction of the ALQ module at Bull Arm and fabrication of a 185 tonne lower turret cover plate in Marystown. In addition, approximately 160 local engineering, technical support and other service personnel accompanied the FPSO to Rotterdam to perform maintenance and modifications while en route.

The FPSO arrived back at the field on September 25 and, at the time of writing, the process of reconnecting the vessel to the subsea equipment was underway. Production is expected to re-start in early November and it is expected to take up to two months to reach maximum production targets of 110,000 to 120,000 barrels per day. As a result of the extended downtime, anticipated 2006 production is now 17.6 million barrels, significantly lower than the 26.7 million barrels that was expected at the beginning of the year. The work undertaken is expected to improve reliability to the 90% range on a sustained basis, up from its previous level of around 80%.

Cumulative production at Terra Nova, from first oil in January 2002 up to the end of September 2006, was 173 million barrels—leaving approximately 181 million barrels to be extracted.

White Rose

Production from the White Rose field totalled 21.9 million barrels in the first nine months of this year and annual production is now expected to total 29.3 million barrels in 2006, its first full-year of operation. A sixth production well, which is expected to come on stream at the end of this year, is expected to increase reservoir production capacity to 125,000 bpd. Husky Energy, the project operator, announced in October 2006 that plans are being put in place to improve FPSO efficiency and increase throughput capacity to 140,000 bpd during a scheduled turnaround next summer. The current approved annual average production rate is 100,000 bpd and any annual production increase in excess of this amount is subject to regulatory approval by the C-NLOPB.

Additional Living Quarters and the Starboard Lifeboat Enclosure loaded onto a barge in Bull Arm

Hebron

Negotiations between the provincial government and the Hebron consortium reached an impasse in early April 2006. Chevron Canada is the designated project operator and has a 28% stake in the project; ExxonMobil Canada has the greatest ownership stake at 37.9%; Petro-Canada has 23.9%; and Norsk Hydro Canada Oil & Gas 10.2%.

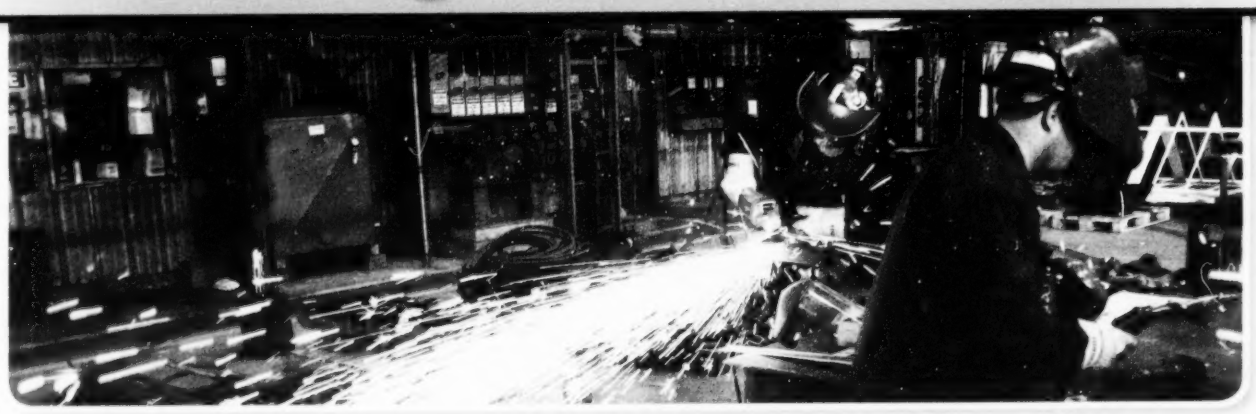
The C-NLOPB upwardly revised its reserve estimates for the Hebron complex in June 2006. The Hebron complex, which includes the Hebron, Ben Nevis, and West Ben Nevis fields, is now estimated to have 731 million barrels of proven and probable oil resources based on the Board's latest geologic, petrophysical and reservoir simulation studies—this represents an increase of 317 million barrels over the previous estimate making it the province's second largest field.

EXPLORATION HIGHLIGHTS

- $798 million in outstanding exploration commitments
- average of 2-3 wells per year expected over the next five years
- C-NLOPB issued three separate Calls for Bids in 2006
  - 3 parcels in the Jeanne d'Arc Basin (area of current oil production)
  - 5 parcels in the Western Newfoundland and Labrador offshore region
  - 3 parcels in the Sydney Basin (off the province's Southwest Coast)*

* This is the 1st time that lands have been available for bidding in the Sydney Basin following the resolution of the land claims dispute between Newfoundland and Labrador and Nova Scotia in April 2002.

Manufacturing

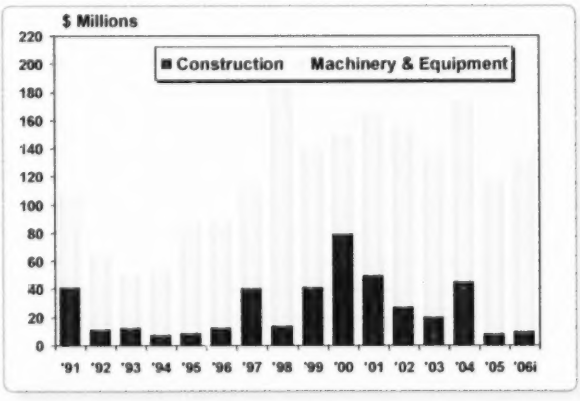


Steel fabrication

The manufacturing industry directly accounted for 6.6% of GDP and 7.8% of total employment in the province in 2005. Most of Newfoundland and Labrador's manufacturing sector stems from resource based industries, such as fishing and forestry. The fabrication of metal products and refining of crude oil also contribute significantly to the manufacturing sector.

In 2006, the fish processing industry was negatively impacted by lower fish landings, lower prices for processed products in the U.S. market, and a higher Canadian dollar. The newsprint industry recorded a significant drop in shipments, mainly due to the closure of Abitibi Consolidated's Stephenville mill in October 2005. The oil refining sector benefitted from higher oil prices while the fabrication of metal products experienced weakness mainly due to the completion of work on the White Rose project.

Investment in Manufacturing



Statistics Canada; Department of Finance; i: Investment Intentions

As a result of these factors, the value of manufacturing shipments decreased by 9.1% in the first eight months of 2006 to about $1.4 billion compared to the same period in 2005. The value of non-durable goods (which includes both fish products and newsprint) decreased by 8.5% to $1.07 billion and the value of durable goods shipments declined by 10.8% to $324 million. A drop in the value of seafood products was the main factor behind the decline in the value of non-durable goods. The value of seafood products decreased by 15.2%. The value of fabricated metal shipments, which accounted for about 53% of durable shipments last year, declined by 37.5% in the first eight months of 2006, with metal fabrication for the White Rose project now complete. Manufacturing shipment data from Statistics Canada for both newsprint and oil refining is confidential. However, it is believed that the value of newsprint shipments fell significantly while the value of refined petroleum has risen.

Manufacturing employment declined by 6.3% or 1,100 person years in the first nine months of 2006, largely the result of declines in paper manufacturing and fabricated metal product employment. Excluding these two industries, manufacturing employment remained flat in the January to September 2006 period, compared to the same period in 2005.

Manufacturing investment is expected to exceed $130 million in 2006, representing a 15.4% increase over 2005. Expenditures associated with machinery and equipment are expected to comprise the majority of spending in 2006 (about 92% of the total). This is consistent with spending in previous years, when spending on machinery and equipment comprised more than 60% of total spending in all but one year since 1990.

Tourism

Cape Bonavista Lighthouse

Year-to-date trends suggest 2006 provincial tourism activity will increase over 2005 levels. Preliminary figures indicate that non-resident visitors could reach 497,800 in 2006, representing a 6% increase over 2005. Despite this overall increase, some rural areas experienced a decrease in activity—as evidenced by mixed results in accommodation occupancy and site/facility visitation—due to a decline in non-resident automobile visits and slowing resident traffic.

Total tourism spending in the province (both resident and non-resident) is estimated at about $838 million. Industry revenues have increased steadily in recent years, driven by growth in non-resident visits.

Preliminary data indicates that 419,600 non-resident visitors travelled to the province in the January to September 2006 period. This represents growth of 5.9% over the same period in 2005, and an increase of 10.9% over the same period of 2004. Growth in non-resident visitation continues to be fuelled primarily by tourists travelling by air and cruise ships.

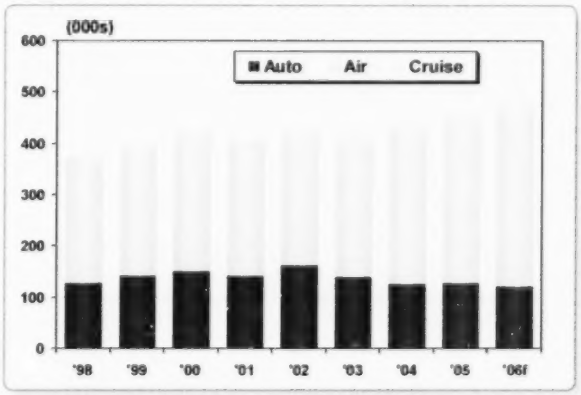
Non-resident airline visits rose by about 13% during the first three quarters of this year. This growth is mainly due to a more competitive airline industry with consumers taking advantage of attractive seat sales and travel packages. It is also consistent with a busy convention year—the number of delegates travelling to conventions in the St. John's area is expected to be up by about 4% relative to 2005, with over 26,000 convention delegates expected in 2006.

Cruise ship passenger visits are expected to increase to about 40,000 in 2006, representing an increase of about 11% over 2005 levels and an increase of 57% relative to 2004. There are 110 port calls expected for the 2006 season which, if all are realized, would represent an increase of 13 port calls over the 2005 cruise season.

A 6% decline was recorded in the number of non-resident tourists travelling to the province by automobile in the January to September period. This is not altogether unexpected given high gas prices. The decrease in automobile travellers may also be part of a longer-term shift in consumer travel patterns as people take shorter, more frequent vacations and prefer air to auto travel, especially for destinations which are further away.

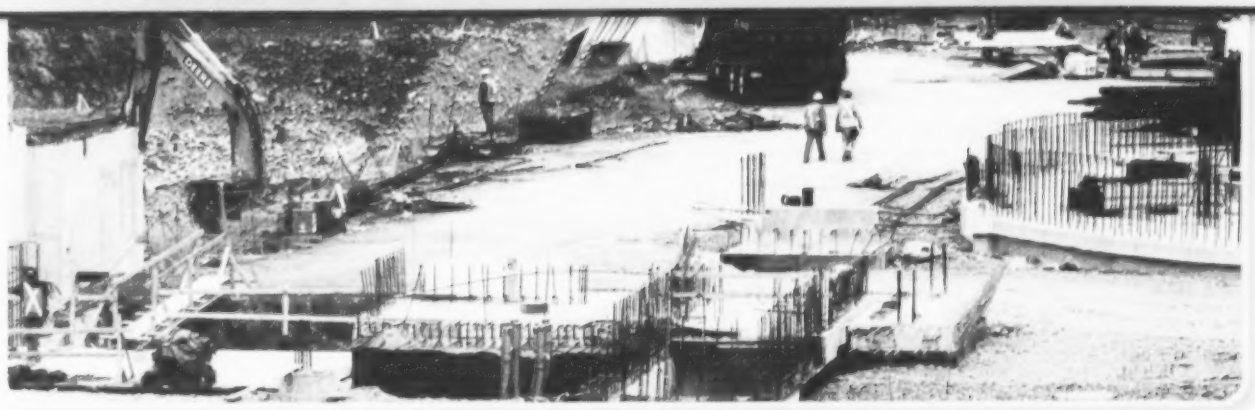
The marginal improvement in gas prices since mid summer, combined with increased marketing may give both residents and non-residents incentive to travel around the province during the Fall 2006 season. A new extension pilot project has been undertaken this year in the Discovery Trail (Bonavista Peninsula) region. This pilot project involves provincial sites and facilities, as well as other private operators, extending the closing dates to October 30th. The success of this initiative will be evaluated at the end of 2006.

Non-resident Tourists by Mode



Department of Tourism, Culture and Recreation; CANAL
f: forecast

Construction



Construction of Riverhead Waste Water Treatment Facility—St. John's

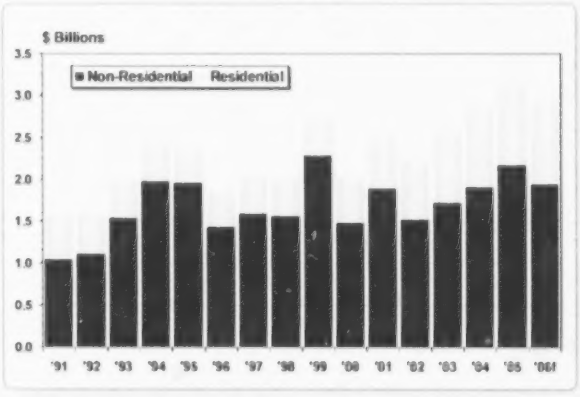
Total construction investment is expected to decline by 7.6%, or $240.3 million, to $2.9 billion in 2006. While investment is expected to be lower than 2005, it is still very high in a historical context—being the second highest level recorded in the past couple of decades. This year's decline in construction investment is due to lower expenditures by the mining and oil and gas sectors. Although expenditures in mining and oil and gas remain substantial, spending is lower this year than 2005 as both the Voisey's Bay mine and the White Rose oil project moved from the development to the production stages last year.

Non-residential Construction

Non-residential construction investment is expected to total $1.9 billion this year, down $232.1 million or 10.7% from 2005's level. In recent years, the mining and oil and gas sectors have accounted for about two-thirds of this spending. While there were no mega projects under development during 2006, Aur Resources continued construction of its Duck Pond mine in central Newfoundland and producing companies continued to invest heavily to improve productivity (e.g., Terra Nova FPSO retrofit).

In addition to activity in the mining and oil and gas sectors, there are a number of other significant non-residential projects currently underway in the province including many projects in the public sector. Public sector construction investment is expected to increase by about 13% this year as governments, particularly the provincial government, address infrastructure needs. Projects in the public sector include the St. John's harbour clean-up project; construction of a long-term care facility in Corner Brook; and a number of road improvement projects throughout the province.

Construction Investment



Statistics Canada; f: forecast

Residential Construction

According to Statistics Canada's *Private and Public Investment in Canada, Intentions–2006*, released in March 2006, total residential construction is expected to decline by 0.8% to $983.7 million in 2006. Residential investment totalled $452.5 million in the first six months of 2006, a 1.5% increase over the same period in 2005. The impact of fewer housing starts has been tempered by the construction of higher valued homes, higher spending on cottages and conversions, and steady renovation expenditures. Housing starts declined by 12.2% in the first half of the year and are currently forecast to decline by 12.7% for the year as a whole. Housing starts declined last year, and are expected to fall again this year, as pent-up demand from the mid to late 1990s has been largely satisfied and interest rates have edged upwards.

Construction employment averaged 12,300 in the first nine months of 2006, essentially unchanged from the same period in 2005.

Forestry and Agrifoods

Pure Labrador Products

Newsprint

The newsprint industry is cyclical by nature, however, the past several years have been particularly challenging due to a significant contraction in North American newsprint demand. North American demand totalled 10.4 million tonnes in 2005, a decline of 20.4% from its 2000 level. In response to this rapid decline in demand, producers have been reducing capacity by closing many of their higher cost mills. As a result, North American capacity has been reduced from its peak of 16.7 million tonnes in 1999 to 13.3 million tonnes in 2005. While the removal of this excess capacity has put upward pressure on newsprint prices, it remains to be seen whether the reductions will prove sufficient to stabilize the market. The price of newsprint is expected to average US$680 per metric tonne in 2006, an increase of 11.5% over its 2005 level. Unfortunately for Canadian producers, the bulk of the price increase is being offset by the appreciation of the dollar and prices are only expected to rise by 3.9% in Canadian dollar terms.

Abitibi-Consolidated closed several newsprint mills across the country in recent years as a result of poor market conditions. The Stephenville newsprint mill was closed in October 2005, with the company also citing high energy costs and fibre supply constraints as major reasons for the closure. The closure of the Stephenville mill removed approximately one quarter of the province's newsprint capacity. As a result, provincial newsprint shipments fell to 439,973 tonnes in the first three quarters of 2006—representing a 26% decline from the same period in 2005.

Lumber

The volume of lumber production is expected to increase by just over 5% in 2006 to 130 million board feet. However, the estimated value of production is expected to decline by around 16% as lower prices more than offset the volume increase. Lumber prices are expected to average US$330 per thousand board feet in 2006, down from US$387 in 2005 as a result of reduced North American housing starts.

Farm Cash Receipts

Total farm cash receipts increased by 0.6% in the first six months of 2006 to $42.6 million. Dairy production, which accounts for more than 40% of total farm cash receipts, was up 6.8% to $18.3 million. The dairy industry continues to experience significant growth as a result of increases to the province's industrial milk quota—production increased to 13.3 million litres in 2005-06 (August-July) from 7.5 million litres the previous year. Egg production, which accounts for about 14% of total receipts, was down 9.6% in the first six months of 2006 to $6.0 million. Most other categories exhibited little change from levels in the previous year.

PURE LABRADOR

Labrador Preserves Company of Forteau, which produces a variety of gourmet spreads and syrups—including cloudberry (bakeapple), lingonberry (partridgeberry) and blueberry—has recently ventured into the New England market in a major way. Four gourmet food chains (Whole Foods Market, Russo's Quality Fruits and Vegetables, The Brown Jug, and Formaggio Kitchen) in three New England states (Massachusetts, Rhode Island, and New Hampshire) have agreed to carry the PURE LABRADOR product line. PURE LABRADOR products are made from the finest wild berries grown on the pristine, pollution-free barrens and marshes of Labrador. Labrador Preserves Company uses the most modern equipment available, while maintaining the integrity of the original taste. This process captures the essence of the old fashioned recipes handed down through generations from the original settlers of the Labrador Straits in the 17th century.

Labrador Preserves now employs eight full-time workers and plans to increase its workforce to 25 full-time positions over the next two years. Currently, 80% of production is marketed within the province with the remainder being exported to mainland markets. Further expansion into Canadian and U.S. markets is a cornerstone of the company's business plan—sales are projected to increase by 40% in 2007 and another 50% in 2008, at which time the company expects to be marketing approximately 60% of its product outside the province.

Special Feature — Ocean Technology

Introduction

Newfoundland and Labrador has always had a strong attachment to the ocean, and through our rich maritime history we have amassed a tremendous amount of knowledge. Newfoundlanders and Labradorians have applied that knowledge to the field of ocean technology and our expertise is being recognized internationally. Ocean technology developed in this province allows fishers to find and catch fish more efficiently; provides added safety to mariners and offshore workers; provides more accurate weather forecasting; and enables those at sea to communicate with one another and with those onshore.

The Ocean Technology Sector

The ocean technology sector facilitates the use and monitoring of the ocean and coastal resources by developing, producing or adding value to products and/or services based primarily on technological and business innovation. This sector consists of companies and organizations involved in a range of technologies and applications including communication, navigation, simulation, remote sensing, fish harvesting and processing, and remotely-operated vehicles.

The Newfoundland and Labrador ocean technology sector consists of 52 companies, two-thirds of which generate more than 90% of their revenue from ocean activities, and 11 public sector organizations. Most of the companies have been in business for 6-15 years and have developed a wide range of technological competencies, including:

- integrated navigation and control systems;
- acoustical, optical, electromagnetic sensors, transducers and related instrumentation;
- specialized radars and other remote sensing systems;
- robotics and intelligent systems;
- numerical and physical hydrodynamic testing; and
- simulation.

Growth in the ocean technology sector, both worldwide and within Newfoundland and Labrador, has historically outpaced general industrial growth. In Newfoundland and Labrador, over the past five years, revenue growth has averaged 18% per year, and company projections indicate strong future growth.

Employment and Sales Revenue in the Ocean Technology Sector (Private Sector)

	Employment	Sales Revenue
2001	880	$116.9 million
2005	1,470	$229.6 million

Total annual sales for Newfoundland and Labrador ocean technology companies were $229.6 million in 2005, almost doubling from $116.9 million in 2001. Total private sector employment also increased from 880 employees in 2001 to 1,470 in 2005.

Of the new firms that joined the province's ocean technology sector since 2001, most are considered "core" companies, with more than half of their operational focus concentrated on innovative activity and ocean technology markets. Many of these firms trace their origins to research and development programs conducted at Memorial University, the Marine Institute and the National Research Council's Institute for Ocean Technology.

Core companies are primarily focused on international export sales in niche markets with more than 90% of their business coming from international exports. Europe represents the largest market for these companies. For all other ocean technology firms in this province, Atlantic Canada is the primary sales market.

These ocean technology firms are supported by a world-class collection of research facilities and support agencies that employ a further 268 people, and have combined operating budgets of approximately $35 million. These agencies include: the National Research Council's Institute of Ocean Technology, C-CORE, the Centre for Marine Simulation, the Offshore Safety and Survival Centre, the Centre for Sustainable Aquatic Resources, the Centre for Aquaculture and Seafood Development, the Ocean Sciences Centre, the Ocean Engineering Research Centre, and the Canadian Centre for Fisheries Innovation among others.

New Activities in 2006

The New England market has been the primary focus for the ocean technology sector for the Department of Innovation, Trade and Rural Development in 2006. In January of this year, Premier Williams led a group of ten local companies on an ocean technology mission to New England. This was followed by a second mission in May at which point three memoranda of understanding (MOU) were signed, representing partnerships of government, academia and industry. The first MOU was between the province and the State of Rhode Island, the second linked the Marine Institute of Memorial University and the University of Rhode Island, and the third partnered OceansAdvance Inc. with the Marine and Oceanographic Technology Network (MOTN). A third mission to New England occurred in September 2006 to coincide with the Oceans 2006 trade show and conference in Boston.

ICAN, a marine navigation and surveillance solutions company based in St. John's, stands poised with the marine experience and technical know-how to develop digital navigation applications for the world.

This year also saw the launch of the "SmartBay" project in Placentia Bay, which is led by the Canadian Centre for Marine Communications (CCMC). Funded through Canada's Ocean Action Plan, the objective of this project is to establish and demonstrate Canadian technology to allow more effective and efficient decision making in support of vessel traffic safety, and integrated oceans management in one of Canada's busiest waterways. One of the goals of SmartBay is to allow end users immediate and easy access to real-time information about the marine environment in which they operate and this is accomplished through a web interface: www.smartbay.ca

Ocean Technology Strategy

Given Newfoundland and Labrador's world-class infrastructure and our proven capabilities, there is opportunity for the province to establish itself not only as the Canadian centre of excellence in ocean technology, but also as an international leader in this rapidly expanding sector. To support the continuing growth of this important sector, the Department of Innovation, Trade and Rural Development is developing an updated Ocean Technology Strategy. Newfoundland and Labrador is the only province to have implemented a strategy to develop its ocean technology base into a competitive advantage. The primary objectives of this strategy are to increase the level of economic activity in the province by expanding, developing or attracting ocean and offshore technology industries, supporting ocean and offshore industry research activities, and related government operational activities.

Submitted by:
Department of Innovation, Trade and Rural Development

www.economics.gov.nl.ca

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Economics and Statistics Branch
Department of Finance